

original purpose, it is time to eliminate them. As a transition, USTA also proposed streamlining the reports as follows:

1). Eliminate Table I of the 43-05. This report no longer serves any regulatory purpose. The market for switched and special access services is highly competitive. The customers of these services, primarily interexchange carriers and large corporations, closely monitor the services provided on a real-time basis and demand immediate corrective action if a problem should arise. In such a competitive market, there is no longer any need for the Commission to collect this data. Specifications regarding installation and repair intervals are already included in publicly available information, such as tariffs and service agreements. This Table is duplicative and also provides information which can be used by other providers to provide them with a competitive advantage.

2). Eliminate Table II of the 43-05. Local service is properly within the jurisdiction of the state regulatory commissions. This Table is beyond the scope of the Commission's authority and duplicates state requirements.

3). Eliminate Table III of the 43-05. The Commission has found that service quality has not declined under price cap regulation. There is no longer any need to report common trunk blockage.

4). Eliminate Table IV.A of the 43-05. After this Table was initiated, incumbent LECs are now required to file separate initial and thirty day service disruption reports on major service disruptions exceeding certain thresholds. The detail required by this Table serves no regulatory purpose and is also provided in summary form on Table IV. There is no need to duplicate this information.

5). Eliminate Table V of the 43-05. The Commission should keep track of the complaints it receives and the state commissions should keep track of the complaints they receive. There is no reason to impose this burden on incumbent LECs.

6). Eliminate the 43-06. In a pro-competitive telecommunications environment, reporting customer satisfaction surveys is unnecessary. This report has outlived its purpose and should be eliminated. Customers can register their dissatisfaction with an incumbent LEC by filing a complaint or switching to another carrier. Certainly competitors would never collect and report such information.

7). Eliminate Table I of the 43-07. The public network services included in this Table, touchtone, equal access and CCS7 are ubiquitous and there is no longer any need to report this information.

8). Eliminate Table II of the 43-07. As noted above, there is no longer any need to report on the deployment of fiber. Incumbent LECs deploy fiber based on business needs and competitive market circumstances. Table I of the 43-08 provides data regarding conversion from metallic cable to fiber cable. Such data should be sufficient.

9). Eliminate Tables III and IV of the 43-07. As the Bureau suggested, these tables no longer provide relevant data and are redundant. USTA agrees with the Bureau that these Tables should be eliminated.

10). Reduce the level of detail required in Table I of the 43-08. The detail required in Table I should be reduced by eliminating columns d through o.

11). Eliminate Table II of the 43-08. This Table no longer serves any regulatory purpose and should be eliminated.

12). Eliminate Table III of the 43-08. This Table is not appropriate in a pro-competitive telecommunications environment.

13). Eliminate Table IV of the 43-08. In a pro-competitive environment, such information should not be required to be filed by only one class of provider.

USTA also recommends that Section 43.43 of the rules, which addresses depreciation reporting, be deleted. In a separate filing, USTA will demonstrate that forbearance of Section 220(b) of the Communications Act of 1934 is long overdue and is required by Section 10 of the 1996 Act.<sup>45</sup>

#### **PART 51 - INTERCONNECTION.**

USTA has reviewed this section of the rules and recommends no changes at this time.

#### **PART 52 - NUMBERING.**

USTA has reviewed this part of the rules and recommends no changes at this time.

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<sup>45</sup>USTA Petition for Forbearance From Depreciation Regulation of Price Cap Local Exchange Carriers, September 21, 1998.

**PART 53 - SPECIAL PROVISIONS CONCERNING BELL OPERATING COMPANIES.**

USTA has reviewed this part of the rules and recommends no changes at this time.

**PART 54 - UNIVERSAL SERVICE.**

USTA has reviewed this part of the rules and recommends no changes at this time.

**PART 59 - INFRASTRUCTURE SHARING.**

USTA has reviewed this part of the rules and recommends no changes at this time.

**PART 61 - TARIFFS.**

USTA recommends that the tariffing requirements in Part 61 of the Commission's rules be modified to be consistent with the streamlined tariff procedures contained in Section 204(a)(3) of the Act and to further streamline the detailed cost support requirements. In addition, USTA recommends that this section be reorganized. As depicted in the attached matrix, USTA proposes that Part 61 only contain tariff requirements. Rules associated with price cap regulation would be moved to a new Part XX and rules associated with rate of return regulation would be moved to Part 69.

The current tariff rules impose unnecessary costs on incumbent LECs and their customers by delaying the introduction of new services and/or price reductions and thereby creating uncertainty. They are also contrary to a pro-competitive environment. Competitors of incumbent LECs can use the tariff process to delay incumbent LEC offerings and provide themselves with advance knowledge of incumbent LEC offerings. They can respond even before the incumbent has a chance to make its offering. This activity distorts the competitive process and denies consumers the full benefits of competition. The Commission itself has found that significantly

streamlined tariff filing requirements serve the public interest by promoting price competition, fostering service innovation, encouraging new entry into various segments of telecommunications markets and enabling firms to respond quickly to market trends.<sup>46</sup> Nondominant carriers, such as AT&T/Teleport, competitive local exchange carriers and MCI/WorldCom can file tariffs which are considered prima facie lawful on one day's notice with no cost support. The customers of incumbent LECs should not be denied the benefits of streamlined tariff filings.

Tariffing restrictions on incumbent LECs also have a detrimental impact on the operation of the market by failing to encourage economic efficiency. Unnecessary constraints on an incumbent LEC's pricing leads to losses in economic efficiency because incorrect market signals are provided to participants. "Moreover, incorrect market signals can lead to inefficient investments in the telecommunications network: e.g., when a customer decides to purchase from a competitor whose incremental cost is higher than the ILEC's but who, nevertheless, can charge a lower price because the ILEC is prevented from responding by tariff constraints. Such investment results in inefficient duplication of the telecommunications network which raises the cost of telecommunications services to all customers (because customers are not receiving the lowest possible price) and creates a burden (of recovering shared fixed and common costs over a smaller base of customers) for those customers remaining on the ILEC's network."<sup>47</sup>

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<sup>46</sup>Tariff Filing Requirements for Nondominant Common Carriers, CC Docket No. 93-36, *Memorandum Opinion and Order*, 8 FCC Rcd 6752, 6761 (1993).

<sup>47</sup>Schmalensee and Taylor at 5.

USTA's proposal would allow incumbent LECs to file contract-based tariffs. This particular reform is long overdue. Incumbent LECs should have the same opportunity as their competitors to respond to customer requests. Providing incumbent LECs with this opportunity will facilitate efficient pricing and provide more choices for customers in the form of more service options, more competitive prices and more service providers. This has proved to be the case in California where the state commission granted incumbent LECs the ability to enter into contracts:

In our view, it is appropriate that the LECs should have greater contracting flexibility in competitive areas. Firms compete in part on the basis of their ability to tailor their services to meet the needs of specific customers, and these customer-specific arrangements may also reduce the LECs' cost of serving the customer by eliminating services that the customer does not need but that are part of a tariffed package. And if the tailored price makes some contribution toward the fixed costs of operating the network, the LEC's other customers are better off than they would be if the LEC's competitor won the customer's business.<sup>48</sup>

For price cap LECs' annual filing to adjust rates for productivity, inflation and other exogenous events, tariffs would be filed on seven or fifteen days' notice pursuant to Section 204(a)(3). Adjustments to the PCI, API and SBI would be demonstrated. An above cap or above band filing would be made on 45 day's notice, reduced from 120 days, and would include a cost support showing. Any other streamlined tariff filings, including rate changes, would comply with the statutory requirements of Section 204(a)(3) supported by a demonstration that the basket and band indices have not been exceeded. New services would be removed from price cap regulation and filed on fifteen days' notice with no cost support.

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<sup>48</sup>*In the Matter of Alternative Regulatory Frameworks for Local Exchange Carriers. And Related Matters*, Public Utilities Commission of the State of California, 1.87-11-033, September 15, 1994.

For carriers under rate of return regulation, USTA proposes that all such carriers serving less than two percent of the nation's subscriber access lines filing a tariff introducing a new service on a streamlined basis file on fifteen days' notice and include an explanation of the filing and the basis of the ratemaking employed. Rates for new services would be presumed lawful if they do not exceed the rates for the same service offered by a price cap LEC in an adjacent serving area.

Rate changes, including biennial tariffs, filed on a streamlined basis should also meet the statutory notice requirements and include an explanation of the changed matter, the reasons for the filing, the basis of the ratemaking employed and economic information to support the change, including a brief description of the costs for all elements for the most recent twelve month period and projected costs. When supporting data is requested for common line revenue requirements, the SLCs and PICCs would be based on cost and demand data subject to the ceilings established in Part 69.

The optional tariff requirements under the current Part 61.39 rules are expanded to include any carrier with less than two percent of the nation's access lines. Carriers utilizing this option would file an explanation and supporting data would be made available if requested by the Commission.

USTA's rules would also permit a rate of return carrier to file its own carrier common line tariff for one or more of its study areas without doing so for all of its study areas. Those carriers would not be eligible for long term support for those study areas.

In addition, USTA's rules allow telephone companies involved in mergers that wish to have more than 50,000 common lines reenter the common line pool may do so by filing an

application with the Commission.

USTA's Part 61 rules also include the following:

- changes the notice period for tariff filings to make corrections from three days' notice to one day's notice;

- eliminates the requirement that tariffs must be in effect for thirty days before any changes can be made;

- permits tariff references to any other tariff filed with the Commission or to any technical publication;

- extends special permission grants from sixty days to ninety days;

- includes new rules for electronic tariff filings, including the electronic transfer of tariff filing fees;

- eliminates the requirement to maintain a copy of the tariff in the carrier's business office;

- eliminates the rules for optional incentive regulation; and,

- eliminates the rules for dominant interexchange carrier price cap regulation.

Relief from the detailed cost support requirements as described above is in the public interest. Current complaint procedures will continue to provide any party with the opportunity to challenge a tariff filing. These changes are essential to the establishment of a pro-competitive, de-regulatory telecommunications policy.

#### **PART 62 - APPLICATIONS TO HOLD INTERLOCKING DIRECTORATES.**

USTA recommends that this part of the rules be deleted in its entirety. Section 212 of the Communications Act of 1934 makes it unlawful for any person to hold the position of officer or director of more than one carrier subject to the Act unless the Commission grants an exception pursuant to Part 62. Promulgated in 1985, this part of the rules has outlived its purpose. As

competition increases and the number of non-dominant carriers grows, this rule is no longer necessary. The fiduciary responsibilities of corporate officers and board members and other statutory provisions, such as the Foreign Corrupt Practices Act and the Clayton Act, provide sufficient protections. Exceptions already granted by the Commission include certain cellular radio licensees, non-dominant carriers and holding or parent companies. This part of the rules should be deleted.

**PART 63 - EXTENSION OF LINES AND DISCONTINUANCE, REDUCTION, OUTAGE AND IMPAIRMENT OF SERVICE BY COMMON CARRIERS; AND GRANTS OF RECOGNIZED PRIVATE OPERATING AGENCY STATUS.**

USTA recommends a comprehensive streamlining of the Part 63 rules by deleting Sections 63.01 through 63.08, 63.52, 63.60 through 63.66, 63.71, 63.90, 63.100, 63.500 through 63.505 and 63.601. Deleting these rules is consistent with Section 402(b)(2)(A) of the Act which gives the Commission the authority to exempt any carrier from the requirements of Section 214. In fact, these changes are long overdue as these rules no longer serve a valid regulatory purpose. The 214 application process adds unnecessary delays in the provision of services to customers, increases administrative costs and creates uncertainty. The competitive marketplace eliminates the need for this process. Companies should be permitted to enter and exit markets without regulatory intervention. Further, the rules cited regarding discontinuance of lines, reduction of lines, outage and impairment are also covered by state regulations. There is no need to duplicate these types of requirements.

The Commission itself is considering forbearance of the Section 214 application process for certain carriers and streamlining for certain other carriers due to the significant regulatory

burden imposed by Section 214.<sup>49</sup> In fact, the Commission stated that additional regulation under Section 214 is not required to protect ratepayers adequately against potentially higher rates resulting from investment in unnecessary facilities.<sup>50</sup> As USTA pointed out in its comments in CC Docket No. 97-11, the competitive market prevents unnecessary overbuilding. There is no evidence in the record to suggest that incumbent LECs would engage in imprudent construction of facilities, particularly if recovery of those costs was not assured.<sup>51</sup> The accounting rules will continue to provide sufficient opportunity for oversight. Eliminating these rules will eliminate administrative costs and will facilitate entry into telecommunications markets.

#### **PART 64 - MISCELLANEOUS RULES RELATING TO COMMON CARRIERS.**

The Part 64 rules contain many Subparts which USTA believes should be deleted as they are no longer necessary. As the attached matrix shows, USTA recommends deleting Subpart A, Traffic Damage Claims, Subpart C Furnishing of Facilities to Foreign Governments for International Communications, Subpart E, the Use of Recording Devices by Telephone Companies, Subpart G, Furnishing of Enhanced Services and Customer Premises Equipment by Communications Common Carriers; Telephone Operator Services, Subpart H, Candidates for Federal Office and Subpart T, Separate Affiliate Requirements for Incumbent Independent Local Exchange Carriers That Provide In-Region, Interstate Domestic Interexchange Services or In-Region International Interexchange Services. In a separate matrix, USTA provides

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<sup>49</sup>Implementation of Section 402(b)(2)(A) of the Telecommunications Act of 1996, *Notice of Proposed Rulemaking*, CC Docket No. 97-11, January 13, 1997.

<sup>50</sup>*Id.* at ¶ 41.

<sup>51</sup>Comments of USTA, CC Docket No. 97-11, February 24, 1997.

recommendations and new rules which streamline the requirements contained in Subpart I, Allocation of Costs.

The Subparts listed above are no longer necessary. Incumbent LECs maintain records of traffic damage claims as required by the IRS and SEC. There is no reason for the Commission to duplicate these requirements or to specify that the claims must be in writing. Furnishing facilities to foreign governments or to candidates for federal office and the use of recording devices can be handled through the contract process consistent with treaties and other applicable state and federal laws.

Certainly the Commission's prohibition on the bundling of enhanced service and CPE has long outlived its purpose. In a competitive environment, wherein every provider of telecommunications service except the incumbent LEC is permitted to bundle equipment with service, this prohibition is anti-competitive. There is no reason to prevent the incumbent LEC from providing the "one-stop shopping" which customers desire and other providers offer. In the rapidly evolving digital world, differentiating between CPE and service is increasingly difficult. This Subpart should be eliminated.

As USTA has consistently pointed out, there is no justification for the Commission's decision to extend the separate subsidiary requirements on independent incumbent LECs offering long distance service.<sup>52</sup> For many years, independent incumbent LECs have been free to offer long distance services within their service territories and have been doing so in substantial and

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<sup>52</sup>USTA Petition for Reconsideration, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934 as amended and Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area, CC Docket No. 96-149, filed August 4, 1997.

growing numbers. In fact, almost 300 of USTA's member companies are involved in some aspect of the long distance market and more companies are entering that market every day. The participation of incumbent LECs in the provision of long distance service has been beneficial for consumers. There has been no evidence of any anticompetitive conduct.

There is no need to subject independent LECs to these requirements. The Commission has decided that regulation is not required to ensure that interexchange prices are just, reasonable and non-discriminatory. Interexchange carriers are not subject to regulation and even AT&T has been classified as a non-dominant carrier.<sup>53</sup> AT&T and the other major interexchange carriers which control the overwhelming share of the interexchange market are able to enter the local markets of the independent incumbent LECs without establishing a separate subsidiary. It is ludicrous to assume that the independent incumbent LECs can impede the efforts of these globally-based carriers in the interexchange market. The service regions of these LECs are small and generally do not traverse LATA boundaries. The amount of traffic carried by these LECs is but a small fraction of the traffic carried by the major interexchange carriers.

Certainly Congress never intended to impose a separate subsidiary requirement on independent incumbent LECs or it would have done so in the 1996 Act. Subpart T should be eliminated.

The current Part 64 rules also contain CAM filing and audit requirements. These requirements are extremely costly to perform and the administrative burdens are enormous. Further, whenever an incumbent LEC wants to modify its CAM, it must file a request with the

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<sup>53</sup>Motion of AT&T Corp. To be Reclassified as a Nondominant Carrier, 11 FCC Rcd 3271 (1995).

Commission which is subject to public comment.

Ultimately, the Commission should eliminate the requirement to allocate costs between regulated and nonregulated activities. In a pro-competitive environment, such an allocation is unnecessary. Sections 64.901 through 64.904 allocate the costs in the incumbent LECs' books of account. Since price cap regulation breaks the link between price and cost, the amount of allocated cost is of no regulatory consequence. These costs are not used to price competitive services. These rules do not assist the Commission in preventing cross subsidization. Therefore, USTA believes that these rules should be eliminated.

USTA provides specific rules changes designed to streamline the burdensome cost allocation rules in Subpart I. These rules changes will reduce the detail and complexity which provides no public interest benefits, ensure consistency with statutory requirements, eliminate duplicative and unnecessary requirements and reduce the costs of compliance with these rules. USTA's proposals will maintain the purpose of the cost allocation process. The changes are as follows:

- eliminate the three year usage forecasts for Central Office and Outside Plant accounts;
- eliminate the requirement to quantify CAM changes to time reporting procedures, affiliate transactions and cost apportionment table;
- eliminate the fifteen day pre-approval requirement;
- eliminate the product matrix in Section II of the CAM;
- eliminate the annual, external audit which can cost up to \$1 million (not including the costs of the Common Carrier Bureau's review of the work papers); and,
- utilize Class B level accounts consistent with Part 36 and fixed factors to simplify the current process.

## **PART 65 - INTERSTATE RATE OF RETURN PRESCRIPTION PROCEDURES AND METHODOLOGIES.**

USTA proposes to streamline the Part 65 rules to reduce the regulatory burden on both rate of return and price cap incumbent LECs. These changes and the resulting rules are attached. Reporting requirements are eliminated for rate of return LECs and for price cap LECs except when a lower formula adjustment is filed. The maximum allowable rate of return calculation in Section 65.700 is modified to calculate the maximum allowable rate of return on all access elements in the aggregate instead of for each access category. Finally, Section 65.702 is revised to measure earnings on an overall interstate basis instead of separately for each access category. These rules changes are designed to reduce unnecessary administrative burdens.

## **PART 68 - CONNECTION OF TERMINAL EQUIPMENT TO THE TELEPHONE NETWORK.**

USTA recommends no changes to the Part 68 rules at this time.

## **PART 69 - ACCESS CHARGES.**

As noted above, USTA proposes to revise Part 69 to apply only to rate of return incumbent LECs. A description of the rules changes and the resulting rules is attached. As described above, the access tariff rules currently in Part 69 would be moved to Part 61. USTA's proposal streamlines the other Part 69 rules to be consistent with the pro-competitive, deregulatory telecommunications policy.

USTA has consistently argued that the current Part 69 rules are overly burdensome. In 1993, USTA petitioned the Commission to streamline the access structure and to remove the

rules which impede the introduction of new services.<sup>54</sup> The current process, which requires that an incumbent LEC seek a waiver of the rules in order to introduce a service which does not fit in the list of codified access charge elements and subelements, is completely contrary to the purpose of the 1996 Act to encourage innovation and accelerate the delivery of new services to all customers. The waiver process has the effect of forcing the incumbent LEC to bear the burden of proving that a new service is in the public interest. This directly contradicts Section 7 of the Act. That Section states that it is “the policy of the United States to encourage the provision of new technologies and services to the public. Any person or party (other than the Commission) who opposes a new technology or service proposed to be permitted under this Act shall have the burden to demonstrate that such proposal is inconsistent with the public interest.” That section also requires that the Commission act on a petition or application for a new technology or service within one year.

The Commission has never applied Section 7 to the consideration of waivers filed by incumbent LECs. As a result, competitors of incumbent LECs use the waiver process to further their own advantage. These competitors do not have to ask permission to introduce a new service. In many cases, the Commission has allowed such waiver requests to linger for longer than a year. This only serves to add unnecessary costs and delay to the introduction of new services. It places a severe disadvantage on incumbent LECs because they cannot be certain that the Commission will act, much less approve, such requests.

There is no need to regulate new service offerings. By the Commission’s own definition, new services must add to a customer’s options. Incumbent LECs have no incentive to price a

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<sup>54</sup>USTA Petition for Rulemaking, RM 8654, September 17, 1993.

new service at a non-economic level. Because there is no established market for a new service, customers will not purchase such a service if it is priced above expectations. The provisions of Section 251 of the 1996 Act have opened all telecommunications markets to competition. The regulation of new services is not necessary to ensure just, reasonable and non-discriminatory rates. The public interest showing for new service tariff filings should be eliminated.

USTA's rules changes also streamline the access structure into four elements: Transport (includes special access), Switching, Common Line and Other. The Transport, Switching and Other access elements do not contain codified subelements. The Common Line access element contains four subelements: SLCs, PICCs, CCL and Special Access Surcharge. The structure for the EUCL and PICC are Residence, with no distinction between primary and non-primary residence,<sup>55</sup> Single Line Business and Multi-Line Business. EUCL and PICC rates are based on nationwide average prices charged by price cap LECs.<sup>56</sup> CCL charges recover the common line revenue requirement not recovered through the EUCL, PICC and Special Access Surcharge. Special construction charges, individual case basis charges and contract-based service charges are excluded from revenue requirement calculations.

USTA's new Part 69 rules provide an opportunity for pricing flexibility by establishing a zone pricing plan for charges associated with the Transport, Switching and Common Line elements. The new Subpart F establishes competitive triggers and allows for additional pricing flexibility for rate of return LECs. For example, if a rate of return LEC voluntarily opens its

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<sup>55</sup>Such a distinction, particularly for rate of return LECs raises concerns regarding universal service and administration.

<sup>56</sup>This will provide a guideline to ensure that rates are reasonable in both urban and rural areas of the nation.

network by publishing a list of unbundled network elements pursuant to Part 51 of the rules and provides number portability, that LEC may offer interstate services on an individual case basis and file contract-based tariffs. Further, if a rate of return LEC signs a state-approved interconnection agreement, that LEC should be classified as a non-dominant carrier. These competitive triggers will permit rate of return LECs to respond to competition as it develops. Such pricing flexibility is critical for these LECs whose access revenues typically account for sixty percent of their total revenues. These carriers often only have one or two large volume customers. The loss of one to a competitor could be devastating.

Other changes recommended by USTA include:

- a new Subpart C to address the apportionment of net investment between interexchange, billing and collection and the new access elements;

- a new Subpart D to address the apportionment of expenses between interexchange, billing and collection and the new access elements;

- the elimination of the common line segregation rules; and,

- moving the universal service funding rules to Part 54.

#### **PART XX - PRICE CAP REGULATION (NEW).**

As noted earlier, USTA proposes to consolidate and streamline the rules for incumbent price cap LECs from Parts 61 and 69 of the current rules into a new Part XX. The rules changes are attached. This is necessary to eliminate the vestiges of rate of return regulation which are no longer required for those incumbent LECs under price cap regulation. Thus, the codified access structure and the public interest showing for new service tariff filings are eliminated. USTA's recommended rules also provide for increased pricing flexibility to permit these LECs to respond to competition.

The first changes in regulation are intended to eliminate unnecessary constraints which do not reward efficiency and prevent the least-cost supplier from providing the service. This change should occur when the market is *first* opened to competitors so that entrants and incumbents will make efficient entry and exit decisions...At this stage regulation should be immediately adjusted so that it provides neither the entrant nor the incumbent any net advantage on a forward-looking basis. In order for competitors to be given accurate and efficient price signals, they must compete with firms on as a symmetric basis as possible.<sup>57</sup>

USTA's recommended rules changes include the following:

- eliminate the study area averaging rule;
- permit zone pricing for all service categories, including common line, and permit different zone plans to be established for individual services; e.g., switched transport and special transport (zones may be initialized at the same price level when the zone pricing plan is based upon traffic density or zones may be initialized at different price levels for EUCLs when the zone pricing plan is based upon a cost demonstration);
- establish a simplified price cap basket structure consisting of a single Network Services basket with service categories for Tandem Switching and Transport, Local Switching, Common Line and Marketing, and Database Services thereby eliminating many of the existing service categories and subcategories such as High Capacity, DS1 and DS3;
- modify the SLC and PCCC rate calculations so that the maximum SLC is calculated based on common line revenue per line and the PCCC is the difference between the maximum SLC and any SLC cap that is imposed; PCCC caps are eliminated;
- eliminate the CCL;
- convert the residual interconnection charge to a flat rate charge recovered on a trunk port basis; and,
- create new rules to permit price cap LECs pricing flexibility based upon a demonstration that appropriate criteria have been satisfied. Such pricing flexibility includes the ability to offer volume and term discounts, including customer specific contracts, promotional offerings, optional service packages and arrangements, remove service from price cap regulation and obtain forbearance from regulation for specific services or in specific areas.

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<sup>57</sup>USTA Comments, CC Docket No. 96-262, Schmalensee and Taylor Statement, Attachment 1, January 29, 1997 at 25.

These changes are critical for the price cap LECs. There is a tremendous volume of information regarding the presence and phenomenal growth of access competition. The Commission adopted its market based approach to access pricing over a year ago. However, the rules necessary to implement that approach have not been adopted. Price cap LECs have provided many models to establish competitive triggers for pricing flexibility.

Triggers are a means for regulators to ease regulatory constraints in particular markets — in certain market areas or for certain services and customers — as the ILECs' residual market power is reduced to levels found in unregulated markets. In this sense, triggers work to ensure that once market conditions change, appropriate regulatory constraints immediately follow. Their use ensures that there is a timely process in place that responds to the rapidly-changing market conditions in carrier access and increases the likelihood that efficient regulatory decisions are implemented...A process that automatically grants ILECs certain regulatory relief when a specific trigger is reached greatly reduces contention, which allows the Commission to administratively expedite ILEC filings. It also prevents the proliferation of ILEC waiver requests, forbearance petitions etc. which could tie up Commission resources...Market dynamics are changing the technology and structure of telecommunications at an extremely rapid pace. Having in place quantifiable triggers that correspond to predetermined flexibility reduces uncertainty of the participants and increases the likelihood that competition will not be distorted by unneeded asymmetric burdens.<sup>58</sup>

The time is long overdue that such triggers be established and incumbent price cap LECs have the same opportunities to compete in the marketplace. The current and evolving market forces for many interstate access services combined with the competitive provisions of the Act define a competitive environment in which pricing flexibility is necessary to encourage efficient responses to competition. Competition does not come to all services and all geographic areas in the same way or at the same time. The Commission should rely on market forces to determine efficient outcomes and provide greater flexibility as competition increases. Since demand is not

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<sup>58</sup>Schmalensee and Taylor at 32-33.

evenly distributed among customers, the Commission must act quickly for the loss of a few large customers can have a severely detrimental impact. “While competition inevitably leads to customers switching suppliers, it would be economically inefficient if customers switched to competitors, not because they were more efficient, but because regulation encouraged inefficient entry and/or prevented the incumbent from reducing prices to respond to competition.”<sup>59</sup>

The pricing flexibility included in USTA’s proposal will encourage efficient competition. Volume and term discounts and customer-specific contracts are useful strategies in competitive markets that provide substantial benefits to customers and prevent inefficient investment in the network. Since competitors of incumbent LECs already have this opportunity, incumbent LECs should also be permitted to offer such pricing plans. The Commission should adopt USTA’s proposals.

**PART 73 - RADIO BROADCAST SERVICES.**

USTA recommends no changes to these rules.

**PART 74 - EXPERIMENTAL RADIO, AUXILIARY, SPECIAL BROADCAST AND OTHER PROGRAM DISTRIBUTIONAL SERVICES.**

USTA recommends no changes to these rules.

**PART 76 - CABLE TELEVISION SERVICE.**

USTA recommends no changes to these rules.

**PART 78 - CABLE TELEVISION RELAY SERVICE.**

USTA recommends no changes to these rules.

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<sup>59</sup>Schmalensee and Taylor at iv.

**PART 79 - CLOSED CAPTIONING OF VIDEO PROGRAMMING.**

USTA recommends no changes to these rules.

**PART 80 - STATIONS IN THE MARITIME SERVICES.**

USTA recommends no changes to these rules.

**PART 87 - AVIATION SERVICES.**

USTA recommends no changes to these rules.

**PART 90 - PRIVATE LAND MOBILE RADIO SERVICES.**

USTA recommends no changes to these rules.

**PART 95 - PERSONAL RADIO SERVICES.**

USTA recommends no changes to these rules.

**PART 97 AMATEUR RADIO SERVICE.**

USTA recommends no changes to these rules.

**PART 100 - DIRECT BROADCAST SATELLITE SERVICE.**

USTA recommends no changes to these rules.

**PART 101 - FIXED MICROWAVE SERVICES.**

USTA recommends no changes to these rules.

**VI. CONCLUSION.**

USTA urges the Commission to initiate a rulemaking proceeding incorporating USTA's proposed rules changes as the basis for a comprehensive review of its rules as required under Section 11 of the 1996 Act. As USTA has proposed, all regulation which does not further the pro-competitive, de-regulatory policy established by Congress and which imposes unnecessary costs must be eliminate or streamlined as suggested above. The unwarranted micro-management

of incumbent LEC business operations must not continue. Removing such regulatory burdens will permit these carriers to serve their customers in the most efficient and effective manner, will provide the appropriate incentives to encourage investment in the telecommunications infrastructure necessary for the provision of advanced services to all consumers, promote consumer welfare, reduce administrative burdens and will enhance the development of economically efficient and fair competition.

Respectfully submitted,

**UNITED STATES TELEPHONE ASSOCIATION**

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September 30, 1998

# **PART 1**

**USTA  
BIENNIAL REVIEW PETITION  
SEPTEMBER 30, 1998**

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Rule No.	Action	Justification
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1.3	Require FCC action within one year	Adds certainty to regulatory process, eliminates regulatory delay
1.106	Require FCC action within one year	Adds certainty to regulatory process, eliminates regulatory delay
1.115	Require FCC action within one year	Adds certainty to regulatory process, eliminates regulatory delay

### **§1.3 Suspension, amendment, or waiver of rules.**

The provisions of this chapter may be suspended, revoked, amended, or waived for good cause shown, in whole or in part, at any time by the Commission, subject to the provisions of the Administrative Procedure Act and the provisions of this chapter. Any provision of the rules may be waived by the Commission on its own motion or on petition if good cause therefor is shown. Any filing to suspend, revoke, amend or waive the rules shall be deemed to be granted if the Commission does not deny the filing within one year after the Commission receives it.

### **§1.106 Petitions for reconsideration.**

(a)(1) Petitions requesting reconsideration of a final Commission action shall be acted on by the Commission within one year after the Commission receives them. Petitions requesting reconsideration of other final actions taken pursuant to delegated authority will be acted on by the designated authority or referred by such authority to the Commission. A petition for reconsideration of an order designating a case for hearing will be entertained if, and insofar as, the petition relates to an adverse ruling with respect to petitioner's participation in the proceeding. Petitions for reconsideration of other interlocutory actions will not be entertained. (For provisions governing reconsideration of Commission action in notice and comment rule making proceedings, see §1.429. This §1.106 does not govern reconsideration of such actions.)

### **§1.115 Application for review of action taken pursuant to delegated authority.**

(d) Except as provided in paragraph (e) of this section, the application for review and any supplemental thereto shall be filed within 30 days of public notice of such action, as that date is defined in section 1.4(b). Opposition to the application shall be filed within 15 days after the application for review is filed. Except as provided in paragraph (e)(3) of this section, replies to oppositions shall be filed within 10 days after the opposition is filed and shall be limited to matters raised in the opposition. Applications for review shall be deemed granted if the Commission does not deny the application within one year after the Commission receives them.

# **PART 17**

**USTA  
BIENNIAL REVIEW PETITION  
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Rule	Action	Justification
17.7	Delete	FCC rules contained in §17.7 are a duplication of FAA rules, specifically rule 77.17. The FAA rule is contained in the FCC Form 854.
17.14	Delete	FCC rules contained in §17.14 are a duplication of FAA rules, specifically rule 77.15. The FAA rule is contained in the FCC Form 854.
17.17	Modify	Remove reference to §17.23. Reference eliminated per information provided below.
17.21 - 17.23	Delete	The provisions set forth in 17.21-17.23 originate from and are contained in FAA Part 77 rules. In addition, FAA Advisory Circulars AC 70/7460-1H and AC 150/5345-43D provide provisions relative to painting and lighting.
17.24 - 17.43	Delete	This was "reserved" space.
17.45 - 17.51	Delete	The provisions set forth in 17.45-17.51 originate from and are contained in FAA Part 77 rules. In addition, FAA Advisory Circulars AC 70/7460-1H and AC 150/5345-43D provide provisions relative to painting and lighting.
17.52	Delete	This was "reserved" space.
17.53 - 17.56	Delete	FAA rules and Advisory Circulars address the issues covered in these sections.

# **PART 17 - CONSTRUCTION, MARKING AND LIGHTING OF ANTENNA STRUCTURES**

## **Subpart A - General Information**

### **§17.1 Basis and purpose.**

(a) The rules in this part are issued pursuant to the authority contained in Title III of the Communications Act of 1934, as amended, which vest authority in the Federal Communications Commission to issue licenses to radio stations when it is found that the public interest, convenience, and necessity would be served thereby, and to require the painting, and/or illumination of antenna structures if and when in its judgment such structures constitute, or there is reasonable possibility that they may constitute, a menace to air navigation.

(b) The purpose of this part is to prescribe certain procedures for antenna structure registration and standards with respect to the Commission's consideration of proposed antenna structures which will serve as a guide to antenna structure owners. The standards are referenced from two Federal Aviation Administration (FAA) Advisory Circulars.

### **§17.2 Definitions.**

(a) **Antenna structure.** The term antenna structure includes the radiating and/or receive system, its supporting structures and any appurtenances mounted thereon.

(b) An **antenna farm area** is defined as a geographical location, with established boundaries, designated by the Federal Communications Commission, in which antenna towers with a common impact on aviation may be grouped.

(c) **Antenna structure owner.** For the purposes of this part, an antenna structure owner is the individual or entity vested with ownership, equitable ownership, dominion, or title to the antenna structure. Notwithstanding any agreements made between the owner and any entity designated by the owner to maintain the antenna structure, the owner is ultimately responsible for compliance with the requirements of this part.

(d) **Antenna structure registration number.** A unique number, issued by the Commission during the registration process, which identifies an antenna structure. Once obtained, this number must be used in all filings related to this structure.

### **§17.4 Antenna structure registration.**

(a) Effective July 1, 1996, the owner of any proposed or existing antenna structure that requires notice of proposed construction to the Federal Aviation Administration must register the structure with the Commission. This includes those structures used as part of stations licensed by the Commission for the transmission of radio energy, or to be used as part of a cable television head end system. If a Federal Government antenna structure is to be used by a Commission licensee, the structure must be registered with the Commission.

(1) For a proposed antenna structure or alteration of an existing antenna structure,

the owner must register the structure prior to construction or alteration.

(2) For an existing antenna structure that had been assigned painting or lighting requirements prior to July 1, 1996, the owner must register the structure prior to July 1, 1998.

(3) For a structure that did not originally fall under the definition of "antenna structure," the owner must register the structure prior to hosting a Commission licensee.

(b) Except as provided in paragraph (e) of this section, each owner must file FCC Form 854 with the Commission. Additionally, each owner of a proposed structure referred to in paragraphs (a)(1) or (a)(3) of this section must submit a valid FAA determination of "no hazard." In order to be considered valid by the Commission, the FAA determination of "no hazard" must not have expired prior to the date on which FCC Form 854 is received by the Commission. The height of the structure will include the highest point of the structure including any obstruction lighting or lighting arrester.

(c) If an Environmental Assessment is required under §1.1307 of this chapter, the Bureau will address the environmental concerns prior to processing the registration.

(d) If a final FAA determination of "no hazard" is not submitted along with FCC Form 854, processing of the registration may be delayed or disapproved.

(e) If the owner of the antenna structure cannot file FCC Form 854 because it is subject to a denial of federal benefits under the Anti-Drug Abuse Act of 1988, 21 USC 862, the first tenant licensee authorized to locate on the structure (excluding tenants that no longer occupy the structure) must register the structure using FCC Form 854, and provide a copy of the Antenna Structure Registration (FCC Form 854R) to the owner. The owner remains responsible for providing a copy of FCC Form 854R to all tenant licensees on the structure and for posting the registration number as required by paragraph (g) of this section.

(f) The Commission shall issue, to the registrant, FCC Form 854R, Antenna Structure Registration, which assigns a unique Antenna Structure Registration Number. The structure owner shall immediately provide a copy of Form 854R to each tenant licensee and permittee.

(g) Except as described in paragraph (h) of this section, the Antenna Structure Registration Number must be displayed in a conspicuous place so that it is readily visible near the base of the antenna structure. Materials used to display the Antenna Structure Registration Number must be weather-resistant and of sufficient size to be easily seen at the base of the antenna structure.

(h) The owner is not required to post the Antenna Structure Registration Number in cases where a federal, state, or local government entity provides written notice to the owner that such a posting would detract from the appearance of a historic landmark. In this case, the owner must make the Antenna Structure Registration Number available to representatives of the Commission, the FAA, and the general public upon reasonable demand.

#### **§17.5 Commission consideration of applications for station authorization.**

(a) Applications for station authorization, excluding services authorized on a geographic

basis, are reviewed to determine whether there is a requirement that the antenna structure in question must be registered with the Commission.

(b) If registration is required, the registrant must supply the structure's registration number upon request by the Commission.

(c) If registration is not required, the application for authorization will be processed without further regard to this chapter.

#### **§17.6 Responsibility of Commission licensees and permittees.**

(a) The antenna structure owner is responsible for maintaining the painting and lighting in accordance with this part. However, if a licensee or permittee authorized on an antenna structure is aware that the structure is not being maintained in accordance with the specifications set forth on the Antenna Structure Registration (FCC Form 854R) or the requirements of this part, or otherwise has reason to question whether the antenna structure owner is carrying out its responsibility under this part, the licensee or permittee must take immediate steps to ensure that the antenna structure is brought into compliance and remains in compliance. The licensee must:

- (1) Immediately notify the structure owner;
- (2) Immediately notify the site management company (if applicable);
- (3) Immediately notify the Commission; and,
- (4) Make a diligent effort to immediately bring the structure into compliance.

(b) In the event of non-compliance by the antenna structure owner, the Commission may require each licensee and permittee authorized on an antenna structure to maintain the structure, for an indefinite period, in accordance with the Antenna Structure Registration (FCC Form 854R) and the requirements of this part.

(c) If the owner of the antenna structure cannot file FCC Form 854 because it is subject to a denial of federal benefits under the Anti-Drug Abuse Act of 1988, 21 USC 862, the first licensee authorized to locate on the structure must register the structure using FCC Form 854, and provide a copy of the Antenna Structure Registration (FCC Form 854R) to the owner. The owner remains responsible for providing a copy of FCC Form 854R to all tenant licensees on the structure and for posting the registration number as required by §17.4(g).

### **Subpart B - Federal Aviation Administration Notification Criteria**

#### **§17.8 Establishment of antenna farm areas.**

(a) Each antenna farm area will be established by an appropriate rule making proceeding, which may be commenced by the Commission on its own motion after consultation with the FAA, upon request of the FAA, or as a result of a petition filed by any interested person. After receipt of a petition from an interested person disclosing sufficient reasons to justify institution of a rule making proceeding, the Commission will request the advice of the FAA with respect to

the considerations of menace to air navigation in terms of air safety which may be presented by the proposal. The written communication received from the FAA in response to the Commission's request shall be placed in the Commission's public rule making file containing the petition, and interested persons shall be allowed a period of 30 days within which to file statements with respect thereto. Such statements shall also be filed with the Administrator of the FAA with proof of such filing to be established in accordance with §1.47 of this chapter. The Administrator of the FAA shall have a period of 15 days within which to file responses to such statements. If the Commission, upon consideration of the matters presented to it in accordance with the above procedure, is satisfied that establishment of the proposed antenna farm would constitute a menace to air navigation for reasons of air safety, rule making proceedings will not be instituted. If rule making proceedings are instituted, any person filing comments therein which concern the question of whether the proposed antenna farm will constitute a menace to air navigation shall file a copy of the comments with the Administrator of the FAA. Proof of such filing shall be established in accordance with §1.47 of this chapter.

(b) Nothing in this subpart shall be construed to mean that only one antenna farm area will be designated for a community. The Commission will consider on a case-by-case basis whether or not more than one antenna farm area shall be designated for a particular community.

**§17.9 Designated antenna farm areas.** - The areas described in the following paragraphs of this section are established as antenna farm areas: [appropriate paragraphs will be added as necessary].

**§17.10 Antenna structures over 304.80 meters (1000 feet) in height.** - Where one or more antenna farm areas have been designated for a community or communities (see §17.9), the Commission will not accept for filing an application to construct a new station or to increase height or change antenna location of an existing station proposing the erection of an antenna structure over 304.80 meters (1000 feet) above ground unless:

- (a) It is proposed to locate the antenna structure in a designated antenna farm area, or
- (b) It is accompanied by a statement from the Federal Aviation Administration that the proposed structure will not constitute a menace to air navigation, or
- (c) It is accompanied by a request for waiver setting forth reasons sufficient, if true, to justify such a waiver.

**§17.17 Existing structures.**

(a) The requirements relating to painting and lighting of antenna structures shall not apply to those structures authorized prior to July 1, 1996. Previously authorized structures may retain their present painting and lighting specifications, so long as the overall structure height or site coordinates do not change. The Antenna Structure Registration requirements found in §17.5, however, shall apply to all antenna structures that have been assigned painting or lighting requirements by the Commission, regardless of prior authorization.

(b) No change in any of these criteria or relocation of airports shall at any time impose a

new restriction upon any then existing or authorized antenna structure or structures.

**Subpart C - Specifications for Obstruction Marking and Lighting of Antenna Structures**

**§17.57 Report of radio transmitting antenna construction, alteration, and/or removal. -**

The owner of an antenna structure for which an Antenna Structure Registration Number has been obtained must notify the Commission within 24 hours of completion of construction (FCC Form 854-R) and/or dismantlement (FCC Form 854). The owner must also immediately notify the Commission using FCC Form 854 upon any change in structure height or change in ownership information.

**§17.58 Facilities to be located on land under the jurisdiction of the U.S. Forest Service or the Bureau of Land Management. -** Any application proposing new or modified transmitting facilities to be located on land under the jurisdiction of the U.S. Forest Service or the Bureau of Land Management shall include a statement that the facilities will be so located, and the applicant shall comply with the requirements of §1.70 of this chapter.

# **PART 32**

**USTA  
BIENNIAL REVIEW PETITION  
SEPTEMBER 30, 1998**

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RULE	ACTION	JUSTIFICATION												
47 CFR 32, Sections C, D, E, F	Consolidate from Class A to Class B Accounting. Eliminate required subaccounts and subsidiary records as well as Jurisdictional Difference Accounts.	<p>Small rate of return companies are already using Class B accounts. These accounts exist today in Part 32 of the Commission's rules. In addition, carriers should not be forced into maintaining subaccounts or subsidiary records that are not necessary to meet business requirements. Jurisdictional Difference Accounts do not contain USOA dollars and should not be required in Part 32 USOA.</p> <p>Price cap regulation breaks the link between prices and costs. Yet price cap companies are required to keep more detailed accounts than some companies that are on rate of return regulation.</p> <p>Removing the requirement to keep more detailed accounts for everyone gives flexibility to all ILECs to maintain sub accounts and subsidiary records according to business needs, while still allowing for regulatory monitoring.</p> <p style="text-align: center;"><u>Class A/B Comparison</u></p> <table> <tr> <td></td><td style="text-align: center;">A</td><td style="text-align: center;">B</td></tr> <tr> <td>Accounts</td><td style="text-align: center;">261</td><td style="text-align: center;">109</td></tr> <tr> <td>Sub Accounts</td><td style="text-align: center;">12</td><td style="text-align: center;">5</td></tr> <tr> <td>Subsidiary Records*</td><td style="text-align: center;">179</td><td style="text-align: center;">0</td></tr> </table> <p>*Subsidiary records are required further breakdowns within each account for items such as metallic and nonmetallic plant, and salary and wages, benefits, rents, other and clearances for expenses.</p>		A	B	Accounts	261	109	Sub Accounts	12	5	Subsidiary Records*	179	0
	A	B												
Accounts	261	109												
Sub Accounts	12	5												
Subsidiary Records*	179	0												

<p>47 CFR 32.2000</p>	<p>Replace detailed Instructions for Telecommunications Plant Accounts with Policy Requirements instead of Specific Implementation Instructions. This includes Purpose of Telecommunication Plant Accounts, Telecommunications Plant Acquired, Cost of Construction, Telecommunications Plant Retired, Practices for Establishing and Maintaining Continuing Property Records, Basic Property Records, Depreciation Accounting, Amortization Accounting.</p>	<p>Maintaining the details prescribed in this section is costly and burdensome. This level of detail, especially for Property Records, has no relationship to the prices charged for services in today's environment. The public is already protected with the internal controls of the SEC required annual financial audit, the Foreign Corrupt Practices Act of 1977 as well as Generally Accepted Accounting Principles. Companies should be given the flexibility of deciding how best to implement the regulatory policies. Companies should not be forced to keep details that are not necessary for business needs.</p> <p>For companies to become competitive, they must differentiate themselves in the market place. Carriers implement different software packages for record keeping, structure their business and manage their business in different ways and offer different products and services. FCC rules and systems are closely tied together. The FCC rules should begin to move away from rules that dictate implementation to rules that prescribe policies. Forcing implementation uniformity is counterproductive to competitive differentiation.</p> <p>The proposed changes will establish the regulatory requirements by maintaining the regulatory policy, but eliminating the detailed implementation instructions. This will allow companies to migrate towards financial systems that meet business needs - without prior Commission approval - and without having to develop work-arounds or special processes to conform to regulatory implementation requirements.</p>
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47 CFR 32 Section 32.2 (f) 32.12 32.13(a)(3) 32.16, 32.25, 32.26, 32.1220(h), 32.2002(b), 32.2311(f), 32.1437, 32.4340, 32.4361	Eliminate preliminary notification requirements and look to Generally Accepted Accounting Principles for standard setting.	<p>Even though the current rules permit LECs to adopt new standards or changes to existing standards, LECs must file complex revenue requirements and seek approval to adopt Financial Accounting Standards Board (FASB) approved changes to Generally Accepted Accounting Principles (GAAP). This approval process delays implementation and creates additional documentation burdens for LECs that competitive carriers do not have. Once the FASB provides authoritative guidance, LEC competitors simply implement the GAAP change in the most cost efficient manner.</p> <p>Today's LEC rules should be modified to automatically allow LECs to adopt new standards as they are approved by the FASB without the need to seek Commission approval and without performing a costly revenue requirement study. The FASB provides a process through which proposed changes in GAAP are exposed for debate, discussion and evaluation.</p> <p>Today's rules should be modified to follow GAAP standards.</p>
47 CFR 32.23	Tariffed incidental activities should not be accounted for as nonregulated. De minimis activities should be treated as incidental activities.	<p>The tariff process already provides for ratepayer protection. Tariffed services should not also have to be accounted for as nonregulated. This accounting treatment provides no added ratepayer protection as the ratepayer is already paying the tariff rate.</p> <p>Incidental activities should include de minimis activities.</p>

<p>47 CFR 32.27(b), (c), (d)</p>	<p>Use of fully distributed cost (rather than comparing cost to market) should be allowed for all affiliate transactions. At a minimum, use of fully distributed cost (rather than comparing cost to market) should be extended to:</p> <ul style="list-style-type: none"> <li>- OTC sales <u>to</u> service companies</li> <li>- Specific centralized services that are performed solely for members of the corporate family, regardless of whether an affiliate or the OTC performs the service</li> <li>- Affiliate transactions with an annual threshold of \$250,000 or less</li> </ul> <p>Affiliate transaction rules should not be applied to transactions involving OTC nonregulated activities.</p>	<p>Use of complex processes needs to be revisited. It should no longer be necessary for individual asset and service transactions to use <u>two</u> different methods to evaluate the same transaction - cost and market . One method should be sufficient.</p> <p>Using the LEC's cost for LEC provided assets or services insures ratepayers are made whole. For price cap companies, ratepayers are already protected with price caps. For LEC nonregulated activities, these costs are not included in ratemaking. There is no need to also subject these activities to a second set of rules - the affiliate transaction rules.</p> <p>For purchases from an affiliate, the LEC could use the affiliate's market price. In absence of a market in that activity, the LEC could use the affiliate's cost.</p> <p>Neither the Part 64 cost allocations, nor the resulting journalization of Part 32 affiliate transactions is used to set prices for competitive services. Furthermore, it is the antitrust laws that protect against predatory pricing of competitive services (see Docket 86-111, par 40). Finally competition and price caps already protects ratepayers.</p>
<p>47 CFR 32</p>	<p>As competition unfolds, the Commission should require that LECs keep financial books and records in accordance with GAAP, rather than prescribe any Chart of Accounts.</p>	<p>The FASB has developed standards for use in accounting for financial activities. These standards do not prescribe a uniform chart of accounts, nor do they dictate uniformity in systems, processes or in what approved method a company should select. As companies become competitive and differentiate themselves in the marketplace, they should not be asked to bear the burden of maintaining a Commission mandated Chart of Accounts. Individual company charts of accounts, methods, and processes that meet professional accounting standards should be allowed to be used.</p>

## **PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES**

### ***Subpart A - Preface***

#### **§ 32.1 Background.**

The revised Uniform System of Accounts (USOA) is a financial accounting structure intended to enable both management and regulators to assess financial results. The USOA has generally been designed to be consistent with the well-established accounting theories and principles commonly referred to as generally accepted accounting principles (GAAP).

#### **§ 32.2 Basis of the accounts.**

The financial accounts of a company are used to record financial transactions these transactions can be the grouped by business processes or functions and by time period.

Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets.

(c) These accounts, then, are intended to reflect a functional and technological view of the telecommunications industry. This view will provide a stable and consistent foundation for the recording of financial data.

(d) The financial data contained in the accounts, together with the detailed information contained in the underlying financial and subsidiary records required by GAAP, tax purposes and internal business requirements, will provide the information necessary to support separations, costs of service and management reporting requirements.

#### **§ 32.3 Authority.**

This Uniform System of Accounts has been prepared under the following authority: Section 4 of the Communications Act of 1934, as amended, 47 U.S.C. Section 154 (1984); Sections 401, 402 of the Telecommunications Act of 1996. Sections 219, 220 of the Communications Act of 1934, as amended, 47 U.S.C. Sections 219, 220 (1984).

#### **§ 32.4 Communications Act.**

Attention is directed to the following extract from Section 220 of the Communications Act of 1934, 47 U.S.C. § 220 (1984):

(e) Any person who shall willfully make any false entry in the accounts of any book of accounts or in any record or memoranda kept by any such carrier, or who shall willfully destroy, mutilate, alter, or by any other means or device falsify any such account, or memoranda, or who shall willfully neglect or fail to make full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of the carrier, shall be deemed guilty of a misdemeanor, and shall be subject, upon conviction, to a fine of not less the \$1,000 nor more than \$5,000 or imprisonment for a term of not less than one year nor more than three years, or both such fine and imprisonment: Provided, that the Commission may in its discretion issue orders specifying such operating, accounting or financial papers, records, books, blanks, or documents which may after a reasonable time, be destroyed, and prescribing the length of time such books, papers, or documents shall be preserved.

For regulations governing the periods for which records are to be retained, see Part 42, Preservation of Records of Communications Common Carriers, of this chapter which relates to preservation of records.

### ***Subpart B - General Instructions***

#### **§ 32.11 [Reserved]**

#### **§ 32.12 Records.**

(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.

(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be maintained in such manner as required under GAAP to be readily accessible for examination by representatives of this Commission and retained according to Part 42 of the Commission's rules.

#### **§ 32.13       Accounts - General.**

(a) As a general rule, all accounts kept by reporting companies shall conform in numbers and titles to those prescribed herein. However, reporting companies may use different numbers for internal purposes when separate accounts (or subaccounts) maintained are consistent with the title and content of accounts and subaccounts prescribed in this system.

(1) A company may subdivide any of the accounts prescribed. The titles of all such subaccounts shall refer by number or title to the controlling account.

(2) A company may establish temporary or experimental accounts.

(b) Exercise of the preceding option shall be allowed only if the integrity of the prescribed

accounts is not impaired.

(c) As of the date a company becomes subject to this system of accounts, the company is authorized to make any such subdivisions, reclassifications or consolidations of existing balances as are necessary to meet the requirements of this system of accounts.

(d) Nothing contained in this Part shall prohibit or excuse any company, receiver, or operating trustee of any carrier from subdividing the accounts hereby prescribed for the purpose of:

- (1) Complying with the requirements of the state commission(s) having jurisdiction;
- or
- (2) Securing the information required in the prescribed reports to such commission(s).
- or
- (3) Complying with GAAP Requirements
- or
- (4) Complying with Federal, State and Local Tax Requirements

(e) Subsidiary records will be maintained as needed in order to secure the information required in reports to any state commission.

#### **§ 32.14 Regulated accounts.**

(a) In the context of this part, the regulated accounts shall be interpreted to include the investments, revenues and expenses associated with those telecommunications products and services to which the tariff filing requirements contained in Title II of the Communications Act of 1934, as amended, are applied, except as may be otherwise provided by the Commission. Regulated telecommunications products and services are thereby fully subject to the accounting requirements as specified in Title II of The Communications Act of 1934, as amended and as detailed in Subpart A through F of this Part of the Commission's rules and Regulations.

(b) In addition to those amounts considered to be regulated by the provisions of (a) above, those telecommunications products and services to which the tariff filing requirements of the several state jurisdictions are applied shall be accounted for as regulated, except where such treatment is proscribed or otherwise excluded from the requirements pertaining to regulated telecommunications products and services by this Commission.

(c) In the application of the detailed accounting requirements contained in this part, when a regulated activity involves the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, companies shall account for these activities within the accounts prescribed in this system for telephone company operations. Companies shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not qualifying for incidental treatment, as provided in § 32.4999(i) shall be recorded in Account 5280, Nonregulated operating revenue.

(d) Other income items which are incidental to the provision of regulated products and services shall be accounted for as regulated activities.

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed regulated accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5240, Rent Revenue.

(f) All items of nonregulated revenue, investment and expense that are not properly includable in the detailed, regulated accounts prescribed in Subparts A through F of this Part, as determined by paragraphs (a) through (e) of this section shall be accounted for and included in reports to this Commission as specified in § 32.23 of this subpart.

#### **§ 32.15 [Reserved]**

#### **§ 32.16 Changes in accounting standards.**

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. Companies are required to notify the Commission of new accounting standards that will not be adopted on a USOA basis.

(b) The changes in accounting standards, which the carriers adopt, will not necessarily be binding on the ratemaking practices of the various state commissions.

#### **§ 32.17 Interpretation of accounts.**

To the end that uniform accounting shall be maintained within the prescribed system, questions involving matters of significance which are not clearly provided for shall be submitted to the Chief, Common Carrier Bureau, for explanation, interpretation, or resolution. Questions and answers thereto with respect to this system of accounts will be maintained by the Common Carrier Bureau.

#### **§ 32.18 Waivers.**

A waiver from any provision of this system of accounts shall be made by the Federal Communications Commission upon its own initiative or upon the submission of written request therefor from any telecommunications company, or group of telecommunications companies, provided that such a waiver is in the public interest and each request for waiver expressly demonstrates that: existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique; a

specifically defined alternative procedure or technique will result in a substantially equivalent or more accurate portrayal of operating results or financial condition, consistent with the principles embodied in the provisions of this system of accounts, and the application of such alternative procedure will maintain or improve uniformity in substantive results as among telecommunication companies.

**§ 32.19 Address for reports and correspondence.**

Reports, statements, and correspondence submitted to the Federal Communications Commission in accordance with or relating to instructions and requirements contained herein shall be addressed to the Common Carrier Bureau, Federal Communications Commission, Washington, D.C., 20554.

**§ 32.20 Numbering convention.**

- (a) The number "32" (appearing to the left of the first decimal point) indicates the part number.
- (b) The numbers immediately following to the right of the decimal point indicate, respectively, the section or account. All Part 32 Account numbers contain 4 digits to the right of the decimal point.
- (c) Cross references to accounts are made by citing the account numbers to-the-right-of the decimal point; e.g., Account 2230 rather than the corresponding complete Part 32 reference number 32.2230.

**§ 32.21 Sequence of accounts.**

The order in which the accounts are presented in this system of accounts is not to be considered as necessarily indicative of the order in which they will be scheduled at all times in reports to this Commission.

**§ 32.22 Comprehensive interperiod tax allocation.**

- (a) Companies shall apply interperiod tax allocation (tax normalization) to all book/tax temporary differences which would be considered material for published financial report purposes. Furthermore, companies shall also apply interperiod tax allocation if any item or group of similar items when aggregated would yield debit or credit entries which exceed or would exceed 5 percent of the gross deferred income tax expense debits or credits during any calendar year over the life of the temporary difference. The tax effects of book/tax temporary differences shall be normalized and the deferrals shall be included in the following accounts:

- 4100 Net Current Deferred Operating Income Taxes;
- 4110 Net Current Deferred Nonoperating Income Taxes;
- 4340 Net Noncurrent Deferred Operating Income Taxes;
- 4350 Net Noncurrent Deferred Nonoperating Income Taxes.

In lieu of the accounting prescribed herein, any company shall treat the increase or reduction in current income taxes payable resulting from the use of flow through accounting in prior years as an increase or reduction in current tax expense.

(b) The amount of deferred taxes which arise from the use of an accelerated method of depreciation shall be separately identified.

(c) The deferred tax assets contained in the accounts specified in paragraph (a) shall be reduced when it is likely that some portion or all of the deferred tax asset will not be realized. The amount should be sufficient to reduce the deferred tax asset to the amount that is likely to be realized.

(d) The nature of the specific temporary differences giving rise to both the debits and credits to the individual accounts shall be identified.

(e) Any company that uses accelerated depreciation (or recognizes taxable income or losses upon the retirement of property) for income tax purposes shall normalize the tax differentials occasioned thereby as indicated in paragraphs (e)(1) and (e)(2) of this section.

(1) With respect to the retirement of property the book/tax difference between

(i) the recognition of proceeds as income and the accrual for salvage value and

(ii) the book and tax capital recovery, shall be normalized .

(2) Records shall be maintained so as to show the deferred tax amounts by vintage year separately for each class or subclass of eligible depreciable telephone plant for which an accelerated method of depreciation has been used for income tax purposes. When property is transferred to nonregulated activities, the associated deferred income taxes and unamortized investment tax credits shall also be identified and transferred to the appropriate nonregulated accounts.

(f) The tax differentials to be normalized as specified in this section shall also encompass the additional effect of state and local income tax changes on Federal income taxes produced by the provision for deferred state and local income taxes for book/tax temporary differences related to such income taxes.

(g) Companies that receive the tax benefits from the filing of a consolidated income tax return by the parent company, (pursuant to closing agreements with the Internal Revenue Service, effective January 1, 1966) representing the deferred income taxes from the elimination of intercompany profits for income tax purposes on sales of regulated equipment, may credit such deferred taxes directly to the

plant account which contains such intercompany profit rather than crediting such deferred taxes to the applicable accounts in paragraph (a) of this section. If the deferred income taxes are recorded as a reduction of the appropriate plant accounts, such reduction shall be treated as reducing the original cost of the plant and accounted for as such.

#### **§ 32.23            Nonregulated activities.**

(a) This section describes the accounting treatment of activities classified for accounting purposes as "nonregulated." Preemptively deregulated activities and activities (other than incidental or de minimis activities) never subject to regulation will be classified for accounting purposes as "nonregulated." Activities that qualify for incidental treatment under the policies of this Commission will be classified for accounting purposes as regulated activities. Tariffed activities and activities that have been deregulated by a state will be classified for accounting purposes as regulated activities. Activities that have been deregulated at the interstate level, but not preemptively deregulated, will be classified for accounting purpose as regulated activities until such time as this Commission decides otherwise. The treatment of nonregulated activities shall differ depending on the extent of the common or joint use of assets and resources in the provision of both regulated and nonregulated products and services.

(b) When a nonregulated activity does not involve the joint or common use of assets and resources in the provision of both regulated and nonregulated products and services, carriers shall account for these activities on a separate set of books consistent with instructions set forth in §§ 32.1406 and 32.7990. Transfer of assets and sales of products and services between the regulated activity and a nonregulated activity for which a separate set of books is maintained, shall be accounted for in accordance with the rules presented in § 32.27, Transactions with Affiliates. In the separate set of books, carriers may establish whatever detail they deem appropriate beyond what is necessary to provide this Commission with the information required in §§ 32.1406 and 32.7990.

(c) When a nonregulated activity does involve the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, carriers shall account for these activities within accounts prescribed in this system for telephone company operations. Carriers shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not qualifying for incidental treatment, as provided in § 32.4999(i) shall be recorded in Account 5280, Nonregulated operating revenue. Amounts assigned or allocated to regulated products or services shall be subject to part 36 of this chapter.

#### **§ 32.24            Compensated absences.**

(a) Companies shall record a liability and charge the appropriate expense accounts for compensated absences (vacations, sick leave, etc.) in the year in which these benefits are earned by employees.

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this Part, the liability shall be recorded in Account 4120, Other

Accrued Liabilities, with a corresponding entry to Account 1439, Deferred Charges. This deferred charge shall be amortized on a straight line basis over a period of ten years.

(c) Records shall be maintained so as to show that no more than ten percent of the deferred charge is being amortized each year.

#### **§ 32.25 Unusual items and contingent liabilities.**

Extraordinary items, prior period adjustments and contingent liabilities shall be recorded in the company's books of account in accordance with the requirements of GAAP

#### **§ 32.26 Materiality**

Companies shall follow this system of accounts in recording all financial and statistical data. When errors occur or better estimates become available, corrections should be made based on the GAAP criteria of materiality.

#### **§ 32.27 Transactions with affiliates.**

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) below, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, or purchased by or transferred to a carrier from its affiliate, the assets shall be recorded at the seller's net book cost.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) below, shall be recorded at the prevailing price. For all other services provided by a carrier to its affiliate, or received by a carrier from its affiliate, the service shall be recorded at the seller's fully distributed cost.

(d) In order to qualify for prevailing price valuation in sections (b) and (c) of this rule, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity

of such product or service sold by an entity. Carriers shall apply this 50 percent threshold on a asset-by-asset and service-by-service basis, rather than on a product line or service line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied. In the case of nonregulated activities, a BOC may also record transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of member, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

Subpart C - Instructions for Balance Sheet Accounts

### ***Subpart C – Instructions for Balance Sheet Accounts***

#### **§ 32.101      Structure of the balance sheet accounts.**

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and Equivalents, through Account 1439, Deferred Charges shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications Plant in Service, through Account 2007, Goodwill, shall include the regulated fixed assets.

Account 3100, Accumulated Depreciation, through Account 3600, Accumulated Amortization-Other, shall include the asset and deferred tax reserves.

Account 4010, Accounts Payable, through Account 4550, Retained Earnings, shall include all liabilities and stockholders equity.

#### **§ 32.102      Nonregulated investments.**

Nonregulated investments shall include the investment in nonregulated activities that are conducted through the same legal entity as the telephone company operations, but do not involve the

joint or common use of assets or resources in the provision of both regulated and nonregulated products and services. See §§ 32.14 and 32.23.

**§ 32.103      Balance sheet accounts for other than regulated-fixed assets to be maintained.**

**BALANCE SHEET ACCOUNTS**

<u>Account Title</u>	<u>Account</u>
<b>CURRENT ASSETS</b>	
Cash and equivalents	1120
Telecommunications accounts receivable	1180
Accounts Receivable allowance -	
Telecommunications	1181
Other accounts receivable	1190
Accounts receivable allowance - other	1191
Note receivable	1200
Notes receivable allowance	1201
Interest and dividends receivable	1210
Material and supplies	1220
Prepayments	1280
Other current assets	1350

**NONCURRENT ASSETS**

Investment in affiliated companies	1401
Investments in nonaffiliated companies	1402
Nonregulated investments	1406
Unamortized debt issuance expense	1407
Sinking Funds	1408
Other noncurrent assets	1410
Deferred tax regulatory asset	1437
Deferred maintenance and retirements	1438
Deferred charges	1439

**§ 32.1120      Cash and equivalents.**

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) This account shall also include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(c) This account shall include the amount of cash advances to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

(d) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(e) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7300 - Nonoperating Income and Expense.

**§ 32.1180      Telecommunications accounts receivable.**

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(i) Amounts due from customers who are receiving telecommunications service.

(ii) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

**§ 32.1181      Accounts receivable allowance - telecommunications.**

(a) This account shall be credited with amounts charged to Account 5300, Uncollectible Revenue, to provide for uncollectible amounts included in Account 1180, Telecommunications Accounts Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1180. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 5300, Uncollectible Revenue.

**§ 32.1190      Other accounts receivable.**

(a) This account shall include all amounts currently due, and not provided for in other accounts, such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts.

(b) Amounts included in this account pertaining to affiliates shall not include amounts receivable from sales of telecommunications service provided at tariffed rates. Such amounts shall be included in Account 1180, Telecommunications Accounts Receivable.

(c) If any items included in this account are not to be paid currently they shall be transferred to Account 1410, Other Noncurrent Assets, or 1401, Investments in Affiliated Companies, as appropriate.

**§ 32.1191      Accounts receivable allowance - other.**

(a) This account shall be credited with amounts charged to Account 5300, Uncollectible Revenue- to provide for uncollectible amounts included in Account 1190, Other Accounts Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1190. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained uncollectible amounts shall be charged directly to Account , 5300, Uncollectible Revenue.

**§ 32.1200      Notes receivable.**

(a) This account shall include the cost of demand or time notes, bills and drafts receivable, or

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other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

**§ 32.1201 Notes receivable allowance.**

(a) This account shall be credited with amounts charged to Account 6790, Provision for Uncollectible Notes Receivable to provide for uncollectible amounts included in Account 1200, Notes Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credit to Account 1200. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 6790, Provision for Uncollectible Notes Receivable.

**§ 32.1210 Interest and dividends receivable.**

(a) This account shall include the amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(b) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(c) Interest receivable under monthly settlements on short-term loans, advances, and open accounts, shall be included in Account 1180, Telecommunications Accounts Receivable or Account 1190, Other Accounts Receivable, as appropriate

(d) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1401, Investments in Affiliated Companies, as a reduction of the carrying value of the investment.

**§ 32.1220 Inventories.**

(a) This account shall include the cost of materials and supplies held in stock and inventories of goods held for resale or lease.

(b) This account shall not include items which are related to a nonregulated activity unless that activity involved joint or common use of assets and resources in the provision of regulated and nonregulated products and services.

(c) This account shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also § 32.2000(c)(2)(iii) of this subpart.)

(d) Transportation charges and sales and use taxes, so far as practicable, shall be included as a part of the cost of the particular material to which they relate or shall be equitably apportioned among appropriate accounts .

(e) Material recovered in connection with construction, maintenance or retirement of property shall be charged to this account :

(1) The cost of repairing reusable material shall be charged to the appropriate account in the Plant Specific Operations Expense account.

(2) Scrap and nonuseable material included in this account shall be carried at the estimated amount which will be received therefor.

(f) Interest paid on material bills, the payments of which are delayed, shall be charged to Account . 7500 - Interest and Related Items.

(g) Periodic inventories of material and supplies shall be taken and the adjustments to this account shall be charged or credited to Account 6510 Other Property, Plant and Equipment Expense.

(h) This account shall also include the cost of all items purchased for resale or lease. The cost shall include applicable transportation charges, sales and use taxes, and cash and other purchase discounts. Items purchased for resale or lease Inventory shortage and overage shall be charged and credited, respectively, to Account 5280 Nonregulated operating revenue.

#### **§ 32.1280      Prepayments.**

(a) This account shall include the amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plants under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged.

(b) This account shall include the balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged.

(c) This account shall include the amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amount which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged.

(d) This account shall include the cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6620. Customer Operations - Services. Amounts in this account shall be cleared to Account 6620 by monthly charges representing that portion of the expenses applicable to each month.